VZCZCXRO7656
RR RUEHCN RUEHGH RUEHVC
DE RUEHBY #0900 2730704
ZNR UUUUU ZZH
R 300704Z SEP 09
FM AMEMBASSY CANBERRA
TO RUEHC/SECSTATE WASHDC 2100
INFO RHEHAAA/WHITE HOUSE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUCPDOC/DEPT OF COMMERCE WASHINGTON DC
RHMFISS/DEPT OF ENERGY WASHINGTON DC
RUEHOT/AMEMBASSY OTTAWA 2402
RUEHBN/AMCONSUL MELBOURNE 6696
RUEHPT/AMCONSUL PERTH 4961
RUEHDN/AMCONSUL SYDNEY 4952
RUEHOO/CHINA POSTS COLLECTIVE

UNCLAS CANBERRA 000900

SENSITIVE
SIPDIS

WHITE HOUSE FOR NSC/LOI
DEPARTMENT FOR EEB

E.O. 12958: N/A
TAGS: EMIN EIND ENRG ETTC ETRD AS
SUBJECT: NEW FOREIGN INVESTMENT GUIDELINES TARGET CHINA

REF: CANBERRA 733

¶1. (SBU) SUMMARY: Australia has placed new guidelines on foreign investment in resources. A Chinese mining group abandoned a A$770 million deal after the Foreign Investment Review Board applied new foreign ownership limits on investment in resources projects. Separately, the Defense Minister rejected a proposed Chinese investment in a strategic rare-earth project on national security grounds. The new guidelines reduce uncertainty for potential investors, but pose new disincentives for larger-scale Chinese investments. END SUMMARY.

NEW FOREIGN INVESTMENT GUIDELINES

¶2. (SBU) The Australian Foreign Investment Review Board (FIRB) announced the application of Treasurer Swan's stated preference for minority foreign shares in new resources projects. The government will limit the foreign share of greenfield developments to below 50%, and around 15% for major miners. FIRB general manager Patrick Colmer confirmed to Econoff the new guidelines are mainly due to growing concerns about Chinese investments in the strategic resources sector. According to Colmer, the FIRB has received more than one Chinese investment application every week this year. Colmer said the measure is also meant to prevent complex investment schemes, such as proposals with loans that are convertible to equity, which sought to circumvent existing FIRB rules.

¶3. (SBU) Two government agencies used different reasons for rejecting investments in Australian mines by Chinese companies. First, the FIRB required that state-owned China Nonferrous Metal Mining Company reduce its A$770 million investment in the Lynas Corporation and that it reduce its stake to less than 50% of the company, instead of a planned 51.6%, and receive fewer seats on the board. The Chinese company responded by abandoning the deal in Western Australia. [Note: Lynas is developing one of the world's largest mines outside China for the production of rare earths, which are needed to manufacture products as diverse as missiles, mobile phones and wind turbines. China already controls about 97% of the world's production of rare earths (see reftel). As recently as May 2009, the FIRB approved a proposal by East China Exploration, which paid A$24 million for a 25% stake in another rare-earths explorer, Arafura Resources. End note].

¶4. (U) In the second case, Defense Minister Faulkner blocked plans by Chinese state-owned company Wuhan Iron and Steel Group of China to invest A$40 million in a 50-50 joint venture with Western Plains Resources to develop an iron-ore project near the flight path of Australia's missile tests. Faulkner stated, "the issue here for

defense is very much where the mine is located, that's the critical point. The Woomera test range is a significant contributor to Australia's defense capability and that of our allies." It should be noted that the prohibited area covers 13% of South Australia. South Australian Premier Mike Rann is seeking to reverse the decision.

NEW THRESHHOLDS, BUT NOT FOR EVERYONE

¶5. (SBU) The FIRB announced, separately, an increase in the investment threshold that will trigger a FIRB review for any foreign investor: from A$100 million to A$219 million. Colmer said the Qinvestor: from A$100 million to A$219 million. Colmer said the measure is largely meant to reduce the administrative burden on the FIRB, a small organization with only 16 officers. However, the change excludes state-owned companies from the higher threshold -- virtually all Chinese investment.

¶6. (SBU) Comment: The new GOA guidelines clearly signal a stricter policy aimed squarely at China's growing influence in Australia's resources sector, and serves as a warning to potential investors. China is now the third largest foreign investor in Australia, with a record of 90 projects worth A$34 billion in new investment proposals over the past 18 months. Thanks largely to Chinese financing, Australian companies have continued to develop the resources sector, despite the GFC. Larger-scale Chinese financing may become harder to come by for these companies in the future.

CLUNE